

Message Text

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PAGE 01 MADRID 03343 01 OF 02 301550Z

ACTION EB-08

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FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 41

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FOR EB ASSISTANT SECRETARY KATZ

E.O. 11652: N/A

TAGS: EGEN EFIN MARR PFOR SP

SUBJECT: TREATY OF FRIENDSHIP AND COOPERATION - REPORT OF THE
JOINT ECONOMIC COMMITTEE TO THE MAY 12 MEETING OF THE US-SPANISH
COUNCIL

1. THE FOLLOWING PROPOSED TEXT OF THE REQUIRED REPORT FOR
THE JOINT ECONOMIC COMMITTEE TO THE UNITED STATES-SPANISH
COUNCIL IS SUBMITTED FOR APPROVAL. THE REPORT IS A
BRIEF SUMMARY OF THE MARCH 14 MEETING AT WHICH YOU LED
THE US SIDE AND RELATED SUBSEQUENT DEVELOPMENTS BELIEVED
TO BE OF INTEREST TO THE COUNCIL. THE TEXT, A JOINT US-
SPANISH PRODUCT, IS PRELIMINARY. WE WILL HAVE FURTHER
DISCUSSIONS THIS WEEK ON SOME POINTS IN IT.

2. THE COUNCIL WILL MEET IN MADRID ON MAY 12 WITH THE US
SIDE TO BE HEADED BY THE SECRETARY. S/S WILL WISH TO
PLACE THE FINAL JOINTLY-AGREED TEXT IN THE SECRETARY'S
BRIEFING BOOK.

3. BEGIN TEXT: SPAIN AND THE UNITED STATES HAVE USED
THE JOINT ECONOMIC COMMITTEE TO FURTHER THEIR SHARED
GOALS OF ECONOMIC GROWTH, TRADE EXPANSION, OTHER ECONOMIC
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PAGE 02 MADRID 03343 01 OF 02 301550Z

RELATIONS AND AS A VALUABLE SUPPLEMENT TO FREQUENT
REGULAR DIPLOMATIC CONTACTS. THE FIRST MEETING OF
THE COMMITTEE WAS HELD ON MARCH 14, 1977 AT THE
MINISTRY OF FOREIGN AFFAIRS IN MADRID. CO-CHAIRMEN
WERE EXCMO. SR. D. CARLOS GAMIR PRIETO, DIRECTOR
GENERAL OF INTERNATIONAL ECONOMIC AFFAIRS, MINISTRY
OF FOREIGN AFFAIRS, FOR SPAIN, AND MR. JULIUS KATZ,

ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS FOR THE UNITED STATES. AFTER A GENERAL PRESENTATION OF THE UNITED STATES' FOREIGN ECONOMIC POLICY, THE DELEGATIONS REVIEWED THE SPANISH ECONOMIC SITUATION WITH PARTICULAR ATTENTION TO EXTERNAL ACCOUNTS AND DISCUSSED A NUMBER OF BILATERAL TRADE ISSUES IN THAT CONTEXT. THESE ISSUES WERE AS FOLLOWS:

SPECIAL STEELS

THE SPANISH SIDE REQUESTED THAT THE U.S. QUOTA SYSTEM BE RECONSIDERED AND, SHOULD THIS NOT BE POSSIBLE, THAT A SPECIFIC QUOTA BE ALLOTTED TO SPAIN FOR STAINLESS STEEL BARS AND IN ANY REDISTRIBUTION OF UNUTILIZED QUOTAS. THE US SIDE RESPONDED THAT THE INTERNATIONAL TRADE COMMISSION (ITC) WAS REVISING ITS QUOTA SYSTEM AND THAT IT WOULD CONSIDER THE ESTABLISHMENT OF A SEPARATE QUOTA FOR SPAIN FOR STAINLESS STEEL BARS, IF SUCH A SYSTEM CONTINUED.

SUBSEQUENTLY, SPAIN HAS OFFICIALLY REQUESTED THE ESTABLISHMENT OF A SPECIFIC QUOTA OUTSIDE THE BASKET" OR GENERAL QUOTA.

ITC'S ACTION ON SHOES

THE SPANISH SIDE CONSIDERED THIS SUBJECT AS THE MOST IMPORTANT AMONGST THE BILATERAL ISSUES. THEREFORE, IT EXPRESSED ITS HOPES THAT PRESIDENT CARTER WOULD NOT IMPOSE RESTRICTIONS.

SUBSEQUENTLY, PRESIDENT CARTER DECIDED NOT TO IMPOSE QUOTAS OR INCREASE TARIFFS. THIS DECISION HAS BEEN LIMITED OFFICIAL USE

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PAGE 03 MADRID 03343 01 OF 02 301550Z

CONSIDERED IN SPAIN AS "HELPFUL AND UNDERSTANDING".

COUNTERVAILING DUTIES

THE SPANISH SIDE MENTIONED THE COOPERATION WHICH THE SPANISH GOVERNMENT HAS GIVEN THE U.S. TREASURY DEPARTMENT IN ITS INVESTIGATION OF THE SPANISH SYSTEM OF TAX REBATES (DESGRAVACION FISCAL). NOTING THAT THE SYSTEM DATES FROM 1964, THE SPANISH CONTENDED THAT IT IS NOT THE REASON FOR SPANISH PENETRATION IN THE U.S. MARKET, WHICH IS ATTRIBUTABLE RATHER TO READJUSTMENTS IN THE PESETA/DOLLAR EXCHANGE RATE. THE SPANISH REPRESENTATIVE ALSO INDICATED THAT SUCH A SYSTEM IS SIMILAR TO THE EEC'S VAT SYSTEM (VALUE ADDED TAX) AND THAT, THEREFORE, THE U.S. TREASURY DEPARTMENT SHOULD NOT DISCRIMINATE AGAINST IT BY IMPOSING COUNTERVAILING DUTIES.

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PAGE 01 MADRID 03343 02 OF 02 010228Z
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FOR EB ASSISTANT SECRETARY KATZ

THE US SIDE POINTED OUT THE DIFFICULTY OF CALCULATING
THE EFFECT OF THE SPANISH CASCADE TAX, BUT STATED
THAT THE TREASURY BELIEVES THERE IS AN ELEMENT OF
SUBSIDY IN THE TAX REBATE WHICH JUSTIFIES THE
COMPENSATORY TAX. IT ADDED THAT THE TREASURY DOES NOT
IMPOSE SUCH DUTIES FOR PROTECTIONIST PURPOSES.

THE SPANISH SIDE NOTED THAT THE SPANISH ZINC INDUSTRY
HAD RECENTLY FURNISHED INFORMATION ON ITS OPERATIONS
AND EXPRESSED THE HOPE THAT THE US WOULD CONSIDER IT
SUFFICIENT, ADDING THAT SHIPMENTS TO THE US MARKET
THROUGHOUT THE YEAR HAVE BEEN LOWER THAN IN THE PRE-
CEEDING YEAR AND THAT THEY WOULD NOT REACH 50,000
TONS.

SUBSEQUENTLY, THE US HAS IMPOSED A PROVISIONAL FOUR PERCENT
COUNTERVAILING DUTY ON SPANISH ZINC EXPORTS, LEAVING
THE SUBJECT PENDING FOR SUBSEQUENT MEGOTIATIONS.
MORE RECENTLY, INVESTIGATIONS HAVE BEEN INITIATED
REGARDING SPANISH EXPORTS OF IRON/STEEL CHAINS AND
THEIR COMPONENTS.

THE DISC SYSTEM

THE SPANISH SIDE SAID THAT, IF THE U.S. HAD DOUBTS AS
TO WHETHER THE SPANISH TAX REBATE SYSTEM CONTAINED
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PAGE 02 MADRID 03343 02 OF 02 010228Z

A SUBSIDY, A GROUP OF EXPERTS OF THE GATT HAD DECLARED
THAT THE US DISC SYSTEM IS A SUBSIDY, ADDING THAT

THE SPANISH GOVERNMENT IS BEING PRESSED TO ADOPT
MEASURES AGAINST AMERICAN EXPORTS BENEFITING FROM
THE DISC SYSTEM WHICH REPRESENT 80PERCENT OF ALL EXPORTS
TO SPAIN.

THE US SIDE REPLIED THAT THE UNITED STATES IS PREPARED
TO DISCUSS THE DISC SYSTEM WITHIN THE GATT RELATIVE
TO THE TAX POLICIES OF VARIOUS OTHER COUNTRIES, ADDING
THAT THE DISC HAS NO RELATION TO COUNTERVAILING DUTIES. A
SPANISH REPRESENTATIVE SAID THAT "A SUBSIDY IS A SUBSIDY."

FISHING

THE SPANISH SIDE EXPRESSED ITS DESIRE THAT, IN VIEW
OF THE TIME LOST IN THE SIGNING OF THE FISHING AGREE-
MENT BETWEEN SPAIN AND THE UNITED STATES AND INASMUCH
AS QUOTAS ARE ESTABLISHED IN ACCORDANCE WITH AVAILABLE
RESOURCES, THE UNITED STATES INCREASE THE VALID
FISHING PERIOD IN ORDER TO COMPENSATE FOR THIS DELAY.
THE US SIDE ANSWERED THAT IT WOULD BRING THE SPANISH
REQUEST TO THE ATTENTION OF THE APPROPRIATE AGENCIES.
TO DATE NO REPLY HAS BEEN RECEIVED.

DOUBLE TAX IMPOSITION

A MEETING WAS HELD IN MADRID ON MARCH 21 BETWEEN THE
TEAMS NEGOTIATING A TAX AGREEMENT. A TREATY WAS AGREED TO
ON AN REFERENDUM BASIS WITH ONLY A FEW DEFINITIONAL
POINTS TO BE RESOLVED.

THE SPANISH SIDE NOTES THAT THE HOPES PLACED
IN THE POINT ECONOMIC COMMITTEE WERE NOT FULLY
REALIZED IN THE COMMITTEE'S FIRST MEETING, AND
EXPRESSES ITS DESIRE TO MAKE SUBSEQUENT MEETINGS
MORE EFFECTIVE. END TEXT.
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PAGE 03 MADRID 03343 02 OF 02 010228Z

4. WE WILL HAVE FURTHER CONVERSATIONS THIS WEEK
WITH THE FOREIGN MINISTRY, PARTICULARLY ON THE
LAST PARAGRAPH OF THE DRAFT REPORT. MEANWHILE,
WE WOULD WELCOME ANY COMMENTS.EATON

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